

Friday, 7 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,062	-0.5%	Last		Overnight Chg			Australia		
US Dow Jones	34,549	0.9%	10 yr bond	98.37	0.02			90 day BBSW	0.04	0.00
Japan Nikkei	29,331	1.8%	3 yr bond	99.75	0.01			2 year bond	0.09	0.00
China Shanghai	3,607	-0.2%	3 mth bill rate	99.95	-0.01			3 year bond	0.31	-0.01
German DAX	15,197	0.2%	SPI 200	7,043.0	20			3 year swap	0.32	0.00
UK FTSE100	7,076	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.70	-0.04
Commodities (close & change)*			TWI	64.2	-	-	64.3	United States		
CRB Index	205.3	1.1	AUD/USD	0.7746	0.7788	0.7701	0.7784	3-month T Bill	0.01	0.00
Gold	1,815.22	28.4	AUD/JPY	84.58	84.94	84.24	84.93	2 year bond	0.15	0.00
Copper	10,099.75	144.8	AUD/GBP	0.5571	0.5605	0.5546	0.5603	10 year bond	1.57	0.00
Oil (WTI)	64.71	-0.9	AUD/NZD	1.0739	1.0767	1.0719	1.0761	Other (10 year yields)		
Coal (thermal)	95.90	3.2	AUD/EUR	0.6452	0.6460	0.6421	0.6452	Germany	-0.23	0.00
Coal (coking)	113.00	1.2	AUD/CNH	5.0255	5.0338	4.9944	5.0322	Japan	0.09	-0.01
Iron Ore	198.30	2.8	USD Index	91.3	91.4	90.9	90.9	UK	0.79	-0.03

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Strong US jobs data has helped lift sentiment about the US and global growth outlook, helping major US share markets rise overnight. The Dow hit a new record high. Commodity prices were also mostly firmer with copper prices within a whisker of making a record high and iron ore prices hitting a new all-time high. The strength in base-metal and iron ore prices underpinned demand for the Aussie dollar. The AUD appears set to rise and try to re-test key resistance at around 0.7825 US cents in the near term.

Share Markets: The major US share market indexes finished in the black after a late-session rally. The Dow Jones added 318 points (or 0.9%) to hit a new all-time high. The S&P 500 index increased 34 points (or 0.8%) and the Nasdaq lifted 50 points (or 0.4%).

Interest Rates: US 2-year and 10-year government bond yields finished the session unchanged at the close. The US 10-year break-even inflation rate rose from 2.47% to a high of 2.49%, which is a fresh high since 2013 before falling back to 2.46%.

Foreign Exchange: The Australian dollar appreciated against the US dollar overnight, lifting from a low of 0.7701 to a high of 0.7788. Iron ore prices rose to a record high overnight, helping lift demand for the Australian dollar.

The AUD/USD appears set to try to probe key resistance around 0.7825 in the very near term.

Since April 19, the AUD/USD has probed this area three times and failed – reaching as high as 0.7815 on April 20, 0.7815 on April 26 and 0.7818 on April 26. Stronger iron ore prices and greater confidence in the global growth outlook could help the AUD finally make a breach of this resistance level that would then see the AUD eye 80 US cents.

Commodities: Oil aside, commodities had a strong session. Copper prices rose to a fresh ten-year high and just shy of a record high. Iron ore prices rose to a fresh record high also.

COVID-19: The NSW Health Department confirmed there is a second case in NSW and imposed tighter restrictions from midday yesterday to 12:01am on Monday 10 May.

Germany's Chancellor Angela Merkel came out against a U.S. proposal to waive patent protections for COVID-19 vaccines, casting doubt on whether the idea has enough international support to become a reality. A German government spokesperson said the plan would create "severe complications" for the production of vaccines.

Australia: Reserve Bank Deputy Governor Debelle gave a speech in Perth last night. He said that Australia's economic recovery has well exceeded expectations, but significant monetary support will be required for quite some time because wages growth remains weak.

Debelle further said that the RBA board "places a

high priority on a return to full employment". The RBA has previously indicated that the rate of unemployment consistent with full employment is in the high 3s to low 4s. Currently, the unemployment rate stands at 5.6%. When questioned on unemployment he said that there was still some way to go in reducing unemployment and that there was only a low possibility of inducing any notable rise in wage inflation.

DeBelle also stated that the RBA would consider the actions of other central banks when reviewing their quantitative easing (QE) and yield-curve control programmes in July. He repeated that there would be no change in their key rate until at least 2024.

Monetary policy actions were thought to have pushed the yields on longer-dated bonds around 30 basis points lower than without QE.

New Zealand: Building permits rebounded 17.9% in March, after a 18.2% fall in February. This took permits to an all-time high. The acceleration in permits reflects several factors. Interest rates are very low and relatedly there has been a massive surge in house prices. There have also been regulatory changes that have allowed for increased densification. New Zealand also had very strong population growth in recent years. Home building has failed to keep pace with population additions through much of the past decade.

Business confidence rose to 7.0 in May from -2.0 in April. Confidence is sitting around its highest level since 2017. Underlying gauges of activity rose strongly, particularly employment and investment.

Europe: Retail sales jumped 2.7% in March, as an easing of restrictions lifted consumer confidence and encouraged consumers to shop. It is the second consecutive month of growth in retailing. Year-on-year growth was 12.0% in March, a turnaround from the fall of 1.5% in February.

Germany's factory orders grew 3.0% in April, after a rise of 1.4% in March. The annual rate surged to 27.8%, which partially reflects base effects from the collapse in factory orders last year around this time.

United Kingdom: The Bank of England (BoE) voted unanimously to hold interest rates at the historic low of 0.1%. However, there was an unexpected dissent from outgoing chief economist Andy Haldane on the volume of quantitative easing. While eight of the nine committee members voted to maintain the stock of money to be created in order to buy assets at £895 billion by the end of 2021, he preferred to limit the size to £845 billion. The minutes of the policy meeting showed that

Haldane through there were good reasons to worry that inflation could rise too far and stay too high, but most of the policy-setting committee thought tax rises and lower government spending would bring the growth rate down in 2022.

The BoE forecast a much stronger economic recovery from the pandemic this year built on the back of higher consumer spending, but said that inflation would remain under control even if it overshoot the target briefly in 2021. The BoE now expects the UK economy to grow 7.25% this year, the fastest pace in more than 70 years and up from a previous forecast of 5.0% made three months ago. The higher growth rate suggests that rates could begin to rise in 2022.

United States: The number of Americans filing new claims for unemployment benefits fell below 500k last week for the first time since the COVID-19 pandemic began. Initial jobless claims tumbled 92k to 498k for the week ended May 1. The result was better than median market expectations.

This data reinforced other jobs data published earlier this week that suggests the labour market is improving. It includes data that US employers announced the fewest job cuts in nearly 21 years. And data that private employers hired the most workers in seven months in April.

Tonight's non-farm payrolls report should continue to suggest ongoing momentum in the US jobs market. Bloomberg consensus is centred on an outcome of 938k new payrolls and the unemployment to have dropped 0.2 percentage points to 5.8%.

The US Federal Reserve in its semi-annual financial stability report said that a rising appetite for risk across a variety of asset markets is stretching valuations and creating vulnerabilities in the U.S. financial system. The review noted that in this environment, prices may be vulnerable to "significant declines" should risk appetites fall.

Fed speakers were out again in full force. Dallas Federal Reserve President Robert Kaplan said he'd like to "begin discussions to talk" about tapering sooner rather than later. He added that he sees the central bank meeting its employment and inflation goals "some time in 2022." Cleveland's Fed President Loretta Mester said she is watching financial stability risks. And Atlanta's Federal Reserve President Raphael Bostic said he wouldn't be surprised to see 1 million jobs gained in April, adding that the economy is still short 7 to 8 million jobs.

Today's key data and events:

AU AiG Perf of Services Apr prev 58.7 (8:30am)

AU RBA Statement on Monetary Policy (11:30am)

CH Caixin PMI Composite prev 53.1 (11:45am)

CH Caixin PMI Services exp 54.2 prev 54.3 (11.45am)

CH Trade Balance Apr exp CNY129.5bn prev CNY88.0bn

Exports y/y exp 12.5% prev 20.7%

Imports y/y exp 33.6% prev 27.7%

CH Current Account Q1 prev US\$123.8bn

US Non-farm Payrolls Apr exp 998k prev 916k (10:30pm)

US Unemployment Rate Apr exp 5.8% prev 6.0% (10:30pm)

US Avg Hourly Earnings Apr exp 0.0% prev -0.1% (10:30pm)

US Con Credit Mar exp US\$20.0bn prev US\$27.6bn (5:00am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

Besa Deda, Chief Economist

Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Economist

Matthew Bunny

matthew.bunny@bankofmelbourne.com.au

(02) 8254 0023

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